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attributed to any one of the products or services by itself. Common costs are costs which cannot be attributed directly to any specific services. Common costs are incurred in the provision of many services and do not change appreciably with the changes in the quantity provided of any particular service. Because they are combined costs of the many services, they cannot be assigned to a specific service on any cost causative basis and, instead, are spread over the totality of all services provided.

To the extent BA-Md. cannot reduce its shared and common costs in response to competition, any shrinkage of BA-Md.'s business could threaten the continued affordability of basic telephone service. This is because if the general revenue-producing pot gets smaller, non-diminished and reasonable shared and common costs have to be allocated to the remaining services, putting upward pressure on the rates for services remaining with BA-Md. However, this possibility by itself does not require us to find that opening the switched network to competition would not be in the public interest. Instead, we are persuaded that the substantial benefits of competition can be obtained other than at the expense of affordable universal service.

How to assure continuity of universal service is being debated presently at all levels of government. Several pieces of legislation pending before the Congress attempt to address this issue. One bill attempts targeting individuals and entities that cannot afford service, while another calls for the convening of a Federal-State Joint Board, pursuant to the terms of Section 410(c) of the Communications Act, to investigate and address the

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issue. Also, the FCC has initiated investigations at the federal level to evaluate continuity and changes in the universal service subsidies.

The universal service debate particularly centers on the question of whether subsidies should be targeted to particular service areas, or to particular customers strictly determined by need (as with Maryland's Tel-Life program), although many other issues -- such as the definition of basic telephone service -- are being discussed as well. One matter that should be kept in mind in this proceeding, however, is that although the proposals discussed above vary, what is recognized across the board is that all carriers should be required to make a fair contribution to universal service subsidies.

This proceeding is not the forum for the Commission to address whether or how the provision of financial support for universal service should be modified in the future. The record is insufficient to make such decisions now. However, the evidentiary record does convince us that, to the extent we permit competition for local exchange service, we also must adopt interim interconnection pricing policies which will guard against an erosion of universal service in the State. This will be further addressed in a subsequent section of this Order regarding local exchange interconnection and financial issues. We intend to take up the broader issue of universal service more fully in Case No. 8587.

As a general principle, MFS-I states that it is prepared to contribute to BA-Md.'s universal service obligation.

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The Commission acknowledges this commitment. The Commission also recognizes that the future may require alterations to the course chosen in this proceeding. In any event, the present need for and the level of such a contribution will be addressed in connection with general policies on interconnection charges.

Although MFS-I requests unrestricted operating authority as a local carrier, MFS-I states that its business plans would be substantially affected depending on the terms of interconnection that the Commission will prescribe. If interconnection charges are impossible from MFS-I's business standpoint, MFS-I asserts it could not avail itself of the opportunity to offer basic local exchange service, as a co-carrier, in competition with BA-Md.

If MFS-I were thereby foreclosed from providing service as a full-fledged local carrier, then MFS-I would enter the Maryland market strictly as a reseller of local and toll exchange. MFS-I states that this is, in fact, how it initially entered the New York market until the New York PSC required New York Telephone to interconnect with MFS on the same interconnection terms that it has with other local exchange carriers. MFS-I asserts, however, that this would be a distinctly second-best alternative, and would not produce the same competitive incentives for BA-Md. or the same benefits for customers as its preferred approach.

Upon consideration of all the arguments, we find that it is in the public interest to grant operating authority to MFS-I to provide local exchange service to business customers as

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a co-carrier, and as a reseller of BA-Md.'s local exchange service in Maryland. All parties support the proposition that fair competition will encourage efficiency of operations and will stimulate product and service offerings desired by consumers. Competition also leads to lower prices with resultant benefit to the economy and consumers. Any detriment to the ubiquitous local switched network and the provider of last resort can be guarded against by providing the appropriate price support.

We note MFS-I's decision that its local exchange competition will proceed first in the areas of the State served by the existing MFS-B and MFS-ICC networks: the Baltimore and Washington, D.C. areas. It will target non-residential customers having five to 100 telephone lines, but will offer its services without discrimination to all non-residential customers of any size at all locations served by the MFS-I network. The Commission recognizes MFS-I's market niche strategy as a legitimate form of competitive entry, and, as noted above, we ensure in subsequent sections of this Order that customers who may someday require BA-Md.'s services as a provider of last resort are not harmed.

The decision to allow local exchange competition is consistent with past Commission decisions, and with decisions by the New York commission.⁵ In the last decade, the Commission has opened the intrastate market to competition (to both facilities-based carriers and resellers); has authorized customer owned coin

⁵ See, for example, Re Telecommunications Interconnection Arrangements, 128 P.U.R. 4th 97 (NY 1991).

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operators, and has recognized that services previously provided by BA-Md. had become subject to competition or were preemptively deregulated. MFS-I's application shows that local exchange competition is technically feasible and desirable to investors, and our investigation in this proceeding leads us to conclude that switched local exchange service should not be closed to competitive new entrants.

In making this decision, the Commission acknowledges that technological developments underscore the fact that local exchange competition is here and will remain, in some form, regardless of what we do in this proceeding. Granting operating authority to cellular and other radio-based technologies falls outside our jurisdiction, as will personal communication services ("PCS"), a new radio-based technology. That being the case, the Commission is reluctant to limit the authority granted to MFS-I to reseller status; otherwise, competition through radio common carriers ("RCC") (and other non-jurisdictional) technologies may be favored by default, an unnecessary market distortion.

We recognize that the extent to which MFS-I will avail itself of this authority depends on the requirements which we will impose. Policies on both interconnection and resale will be discussed below. We also provide descriptions of the technological and operational bases of these two forms of competition in those sections.

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E. Waiver of COMAR Provisions.

The scope of regulation and the waiver of regulations under COMAR for MFS-I as an interexchange carrier and reseller of interexchange service is established by precedent. MFS-I requests that forbearance of regulation be applied equally to its operations as a local exchange carrier or reseller. In addition, MFS-I requests waiver of certain COMAR requirements which at the present time have to be observed by BA-Md.

Staff does not concur that all of the requests should be granted. Discussion on the requested waivers follows.

1. COMAR 20.45.02.01 - Location of Records.

Among other things, this regulation provides that unless otherwise authorized by the Commission, all records required by the regulations applicable to telephone companies shall be kept in Maryland and shall be made available to the Commission or its authorized representatives at any reasonable time upon request. MFS-I notes that the Commission has, upon request, routinely waived this requirement for interexchange carriers and resellers. MFS-I seeks this waiver, noting that its corporate parents, based in Nebraska and New Jersey, would keep many records relating to their subsidiaries at those locations in the ordinary course of business. MFS-I commits that its corporate records would be made available to Staff at a Maryland location for inspection upon request.

On brief, Staff recommends that MFS-I be subject to the provision of COMAR 20.45.02.01. It says the requirement is not

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burdensome, as an affiliate of MFS-I already has operations with offices in the State

The Commission granted a waiver of this regulation to MFS-I's sister company, MFS-B, in Case No. 8167. See Order No. 68290, December 21, 1988. The Commission notes that MFS-I has operations in more than one state, and that, in the era of faxes, overnight deliveries, and computer data transmissions, materials kept in one state can be easily transmitted to a different state. Upon consideration of this issue, the Commission finds that the waiver should be granted. MFS-I is directed to expeditiously comply with regulatory requests for documents.

2. COMAR 20.45.02.03B - Exchange Maps.

This regulation requires telephone utilities to file exchange maps of their service territories. MFS-I requests it be exempted from this regulation in those instances in which its exchange boundaries are identical to those of BA-Md. MFS-I acknowledges that if it chooses to deviate from BA-Md.'s exchange boundaries, it should be required to file maps. Staff's position is that, because of the need for the Commission to monitor telephone service it is advisable that newly introduced competitors be subject to the provisions of COMAR 20.45.02.03B.

The Commission granted a waiver from compliance with this regulation to MFS-I's sister company, MFS-B, in Order No. 68290 in Case No. 8167, supra. We grant a similar waiver here, but direct MFS-I to reference BA-Md.'s exchange maps and

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list the exchanges in which it provides service. MFS-I shall update this information quarterly.

3. COMAR 20.45.02.03C - Filing of Construction Program.

MFS-I notes that Staff proposed that the waiver be granted in part, but that MFS-I be required to file an abbreviated annual construction report that forecasts all anticipated construction activity and real property and capital equipment acquisitions (including leases) for the following year. Without the waiver MFS-I would be required to forecast the upcoming three years of construction expenditures necessitated by system growth, modernization, customer movement, and plant replacement. See COMAR 20.45.02.03C. and 20.45.07.02B. MFS-I has no objection to Staff's proposed modification of the reporting requirement. On brief, Staff seems to be concerned primarily with leases.

The compromise of abbreviated annual reports seems reasonable to us and, therefore, while not granting the waiver, we authorize such abbreviated reports, including lease information, as sufficient for compliance with the regulations.

4. COMAR 20.45.04.11 - Publication of Directories.

This regulation requires each telephone company to publish and distribute to its customers an annual "white pages" directory. MFS-I asks for a partial waiver of this regulation so that it can retain BA-Md. to list its customers in the BA-Md. white pages, and to distribute copies of the BA-Md. directory to

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its customers, instead of publishing its own separate listings. (MFS-I also says it is willing to compensate BA-Md. for placing MFS-I's customers in BA-Md.'s directory assistance ("DA") database, and that BA-Md. should permit access to its DA database by other carriers, at an appropriate compensation rate.) No party disputes that this waiver should be granted. We, therefore, relieve MFS-I of the requirements of this regulation. BA-Md. and MFS-I are free to discuss and propose to the Commission appropriate rates for directory listings and distribution, and directory assistance services.

5. COMAR 20.45.05.01B - Provision of Coin Telephone Service.

This regulation requires that a telephone company provide at least one coin telephone in each exchange area which is available to the public at all hours. MPC opposes this waiver. Staff supports this waiver, and notes that the Commission could reconsider the issue if the need arises. For the time being, therefore, the requirements of COMAR 20.45.05.01B are waived.

F. Waiver of 30-Day Tariff Notice Requirement.

MFS-I requests that its tariff filings be subject to the same streamlined processing that already applies to tariffs submitted by other non-dominant carriers, as well as to tariffs for BA-Md.'s "competitive" services. While no party opposes this request, Staff expressed concern over the 14-day processing time for streamlined tariffs. If Staff should request that the 14-day

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notice requirement be extended, such a change would be applicable to all non-dominant carriers. Pending any such directive by the Commission, MFS-I may file tariffs with a 14-day notice for all services which it provides as a non-dominant carrier. Such tariffs will be presumed just and reasonable, but subject to the Commission's jurisdiction and possible review. An exception to this policy will be when MFS-I files tariffs seeking compensation for terminating other carriers' calls on its network. In that circumstance, MFS-I will be controlling bottleneck facilities that other carriers will need to access. Such tariffs, therefore, will not carry the presumption of reasonableness, and will have to be fully supported. As discussed subsequently, the Commission will process those tariffs pursuant to the terms of Md. Ann. Code art. 78, Sections 27(c) and 70, requiring 30 days notice, unless waived, and allowing for the suspension of the proposed rates.

G. Service Conditions and Other Reporting Requirements.

MFS-I says it does not object to Staff's general proposal that it be prohibited from imposing termination penalties or liabilities on any customer who takes service from MFS-I, but who later returns to taking service from BA-Md. MFS-I agrees with Staff's proposed exception to this general rule, which is that the general rule "should not apply to contractual customers who may have specific liability provisions in their agreements" with MFS-I. MFS-I wants the term "contractual customer" to include, but not be limited to, "any customer for

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which MFS performs special construction or provides special service arrangements at additional cost." The Commission approves MFS-I's position, which MFS-I shall include in its tariffs.

MFS-I states that it plans to offer its customers local calling areas identical to those offered by BA-Md. It agrees to advise its customers of any future plans to change this policy, and acknowledges that it will seek Commission approval before attempting changes in local calling areas.

MFS-I has committed to providing access to a local operator, local directory assistance, 911 services, and dual relay services. MFS-I described its proposals for access to these services, which are acceptable to the Commission. The Commission notes MFS-I's acceptance of its obligations to collect 911 and dual relay service surcharges from its local exchange customers, and to remit those funds to the appropriate authorities.

Staff witness Molnar recommends that the Commission require MFS-I to connect its customers to carriers who may offer 800, 900, and audiotex services. The Commission notes MFS-I's commitment to interconnect with other carriers and providers of telecommunications services, and states its availability to adjudicate interconnection disputes.

MFS-I agrees that it (and all local exchange providers) should be subject to the operating standards and reporting requirements contained in COMAR 20.45, except for those provisions waived or modified by the Commission. MFS-I also agrees to provide periodic reports, described by Staff witness

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Molnar, designed to allow Staff to analyze market developments. The reports include semi-annual income statements and balance sheets, annual reports of construction and capital acquisitions (as discussed earlier in conjunction with the requested modification of COMAR 20.45.02.03C), and quarterly operating reports. MFS-I also says it will comply with the same service quality and consumer protection requirements adhered to by BA-Md.

H. Interconnection Policies.

MFS-I requests two basic interconnections of the MFS-I and BA-Md. networks. MFS-I asserts that both are technically feasible; the differences between them, MFS-I maintains, are primarily financial. From MFS-I's standpoint, however, there are also important technical and operational differences between the alternative forms of interconnection. The first interconnection model would be to permit MFS-I to operate as a reseller of BA-Md.'s services, while the second is operation as a co-carrier.

As noted earlier, MFS-I asserts that allowing MFS-I only to operate as a reseller would unreasonably restrict its proposed operations; therefore, it says BA-Md. should be required to interconnect with MFS-I as a co-carrier, and treat MFS-I's switch in the same manner as an end office operated by an independent telephone company. We have already agreed with MFS-I on this point, and now proceed with discussion of terms and conditions governing MFS-I's proposed operations.

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I. Resale.

MFS-I states that under "reseller" interconnection, MFS-I would purchase access to BA-Md.'s network by subscribing to existing end user exchange services, especially PBX trunks, Direct Inward Dialing ("DID") numbers, and local message units or local measured service. MFS-I expects that it would pay the tariffed business rates for these services, and that it would be authorized to resell these services to individual business customers. To that end, MFS-I requests that BA-Md. be directed to amend its tariffs to remove existing restrictions on resale of these services. All incoming and outgoing local calls between MFS-I and BA-Md. customers within a given exchange would be routed through the Bell central office serving that exchange, but long distance calls could be routed directly to other carriers' points of presence. BA-Md. would collect local usage charges from MFS-I on all out-going local calls placed to BA-Md. customers by MFS- customers, and would collect local usage charges from its message rate or local measured service customers on calls that they place to MFS-I customers.

This model, as described by MFS-I, is exactly the approach that BA-Md. recommends for MFS-I's entry into the local exchange market. As BA-Md. explains, as a reseller the MFS-I switch would be operating essentially as a sophisticated PBX; the number given to MFS-I customers would come from, and incoming interexchange calls would go through, BA-Md.'s switch. Under this scenario, MFS-I would be reselling to its customers like a Shared Tenant Service ("STS") provider. However, under the MFS-I

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plan, as distinct from STS service, MFS-I's customers would not be in a single geographic location. Therefore, BA-Md. calls it "expanded STS."

BA-Md. maintains that all of the services which MFS-I needs to begin business can be purchased from BA-Md.'s existing tariffs, with no regulatory hurdles except the geographic restriction and the "intercom" restriction currently imposed on STS customers. This latter restriction prohibits one STS customer from calling another STS customer on the same system on any call routing scheme that bypasses the serving central office switch. BA-Md. concedes that eliminating the geographic and intercom restrictions is crucial to MFS-I's operations. BA-Md. is willing to remove the geographic limitation from its tariff for service provided to MFS-I. BA-Md. is also willing to eliminate, subject to the quantification of the resulting loss of contribution and the recoupment of this lost contribution after the completion of, and on the terms set in, Phase II, the intercom restriction from the tariff.

It has been the Commission's policy to authorize resale of BA-Md.'s service at rates that cover costs. MFS-I notes that business dial tone line ("DTL") rates (including the federal subscriber line charge) in Rate Group A are "compensatory" for multi-line business customers. Therefore, there should be no objection to resale at the currently tariffed rate levels. MFS-I states that if BA-Md. does object to resale of DTLs in Rate Group B, it is free to propose a new "compensatory" rate for this purpose.

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BA-Md. does not address this issue on brief. Currently, STS service is authorized in both Rate Class A and Rate Class B for individual lines and trunks at the same rate levels as the DTL individual line and trunk business rates. No explanation is offered of whether this STS service is provided below cost; however, in Case No. 8462, the Company indicated that its proposed rates for Rate Class A dial tone lines were at cost, while the rates for Rate Class B were near cost.

In light of the parties' agreement that expanded STS resale service should be authorized for MFS-I, BA-Md. is directed to file with the Commission revised STS tariffs applicable to local exchange resale, in order to provide MFS-I the opportunity to start operations immediately. The revised STS tariffs shall not contain the geographic or intercom restrictions, and shall be based on current STS rates. BA-Md. is free to propose other DTL rates in Phase I, with appropriate cost justification, if current rates are not compensatory.

In addition to expanded resale of STS, MFS-I requests authority to resell unbundled DTL facilities which are presently connecting BA-Md. business customers to BA-Md. central offices. Currently, the dial tone line rate element includes the use of both a transmission path from the customer's premises to the serving central office (the "link") and dedicated central office equipment that connects that link to the switch, provides dial tone, and assigns it a unique telephone number (the "port"). Unbundling of links and ports, coupled with the ability to resell them, would enable MFS-I to interconnect with these facilities at

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central offices where it (or its affiliate) terminates facilities through physical or virtual collocation.

BA-Md. acknowledged that it would be technically feasible to provide interconnection to either links or ports on an unbundled basis. BA-Md. argues, however, that while the record is complete with regard to the contribution and pricing issues arising from resale of STS and co-carrier interconnection to tandem switches, the present record is insufficient for the Commission to decide whether and how to permit unbundling of the dial tone line. BA-Md. also says the request should be rejected because it would require a complex restructuring and deaveraging of BA-Md.'s rates only one year after a comprehensive rate case. BA-Md. maintains that if MFS-I is permitted to purchase BA-Md.'s unbundled links, MFS-I would profit from BA-Md.'s averaged prices. Accordingly, BA-Md. objects to port and link unbundling at this time. MFS-I seems to concur in the insufficiency of the record on the issue of unbundling in suggesting that the appropriate rate levels for unbundled links and local exchange ports be addressed in Phase II of this proceeding (unless the Commission decides to postpone specific issues to a later time).

Conceptually, we approve of the idea of unbundling links and local exchange ports. However, we will defer any decision regarding unbundling until Phase II, which will permit us to examine more detailed information about implementation of the unbundling and to set appropriate rates for the unbundled elements.

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J. Interconnection of Local Exchange - Technical and Operational Issues.

MFS-I's application requests that its operating authority not be limited to resale services, but also include co-carrier services involving interconnection to BA-Md.'s network by means such as trunks to tandems or central office switches and physical or virtual collocation. These proposed types of interconnection raise both operational and financial issues. In the following paragraphs we address the technical and operational issues.

In its application, MFS-I stated that it expects to operate a digital switch with tandem capabilities and will permit BA-Md. access to its network via that switch. In addition, MFS-I states that carriers should permit direct trunk connections to Class 5 (end office) switches where traffic volumes warrant and where technically feasible.

Physical connection should be provided either at the actual switch location, or at another point on a carrier's network reasonably designated by that carrier. For example, MFS-I might initially use a single digital switch to serve exchanges in both the Baltimore and Washington metropolitan areas. Rather than require BA-Md. to transport all of its traffic to a single switch location for termination, MFS-I would be required to designate a reasonable number of network locations in each service area where it would accept terminating traffic. The actual connection can be accomplished either by termination of the first carrier's transmission facilities at the second carrier's designated location (physical or virtual collocation),

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or through other arrangements that are mutually acceptable to the two carriers involved. For example, one carrier could lease the connecting transmission facilities from the other, or the two carriers could jointly construct transmission facilities meeting at a designated location between their two networks.

MFS-I asserts that each local carrier should be required to engineer its portion of interconnection facilities to provide the same grade and quality of service between its switches and the other carrier's network as it provides in its own network (e.g., between its tandems and Class 5 offices). Circuit quality and signaling should be at least equal to access Feature Group D, with transmission of the calling party's number in both directions. Carriers should provide each other the same form and quality of interoffice signaling (either in-band or common channel signaling) that they use within their own network, and SS7 signaling interconnection should be provided where the carrier's own network is so equipped. Each carrier should be required to provide the same standard of maintenance and repair service for their respective portions of the interconnection trunks as they do for their own trunks.

On brief, MFS-I further defines its interconnection requests. In order to be able to operate as a "co-carrier," MFS-I requests that interconnection be as described in the so-called "tandem" model (Commission Ex. 3). Under this arrangement, each MFS-I switch would be connected directly to a Bell tandem switch or, where traffic volume warrants, trunk side connection to one or more end offices as well. MFS-I would

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purchase access to Bell's network out of either existing or modified switched access tariffs. MFS-I states that from a technical standpoint, this is similar to the way cellular carriers obtain access to the Bell network today. BA-Md. agrees that if the Commission goes beyond STS-style resale, then the tandem interconnection model provides the appropriate means of interconnection.

Under tandem interconnection, MFS-I customers would obtain numbers from MFS-I's switch. A call from an MFS-I customer to a BA-Md. customer would pass through the MFS-I switch, over an interoffice trunk to the BA-Md. tandem switch, and from there, over another interoffice trunk to the BA-Md. central office switch, and through that switch to the called customer. Calls from one MFS-I customer to another would not be switched through a BA-Md. office.

No technical or operational objections are raised against MFS-I being authorized to interconnect to BA-Md.'s tandem switches (or, optionally, end offices). However, BA-Md. objects to the granting of co-carrier status to MFS-I in this phase of the proceeding⁶ and, particularly, believes it to be premature for the Commission to authorize physical or virtual collocation for interconnection of local exchange service in this phase of the proceeding.

⁶ Contrary to BA-Md.'s objection, and as discussed on subsequent pages, we will grant co-carrier status to MFS-I in this proceeding. However, we note that while MFS-I's operations as a reseller can be effectuated with the acceptance by the Commission of BA-Md.'s revised reseller tariffs, the effectuation of co-carrier operations will be delayed to resolve operational and technical issues and to comply with the industry's notice requirements for central office code assignments.

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As previously mentioned, the Commission requires BA-Md. to provide, upon request, expanded interconnection (physical or virtual collocation) to competing providers of dedicated transmission services. The FCC has similarly ordered expanded interconnection for connections to interstate switched access services. MFS-I notes that the expanded interconnection facilities it or its affiliates use for dedicated access, and will use for interstate (and, as a result of this Order, intrastate) switched access, could also be used for expanded local access interconnection.

BA-Md. asserts that providing expanded interconnection for local exchange service would lead to "complex rate rebalancing." MFS-I disputes this assertion, saying that the rate issues can be easily separated from other matters. MFS-I points out that BA-Md. offered no technical reason why expanded local interconnection should not be provided. MFS-I asserts that BA-Md.'s refusal to provide for expanded local interconnection would unnecessarily force MFS-I to pay for duplicative BA-Md. trunks to carry certain forms of traffic between the two networks, while using its own facilities (or those of its affiliates) to carry other forms of traffic between precisely the same points. Therefore, MFS-I asks the Commission to require expanded interconnection to tandem offices and, where justified by the volume of traffic, to central offices, for the provision of local exchange services.

On brief, BA-Md. sidesteps this issue by pointing out that the parties discussed the possibility of MFS-I supplying the

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tandem trunk (connecting MFS-I's switch and BA-Md.'s tandem), but that this collocation issue need not be decided in order for MFS-I to compete as a co-carrier under the tandem interconnection model. Further justifying not establishing expanded interconnection at this time, BA-Md. submits that counsel for MFS-I admitted that MFS-I would have no reason to supply the tandem trunk itself unless and until BA-Md.'s tariffs are "unbundled into component parts."

Having access to those facilities on an unbundled basis is exactly what MFS-I has in mind. It says there is little reason to obtain expanded interconnection for local service if it will have to pay for local access to BA-Md.'s customers on a bundled basis; rather, it wants to use the same trunks it or its affiliates use for dedicated access and interexchange switched access, and avoid the costs of the BA-Md. trunks that would otherwise be bundled into BA-Md.'s access rates.

Having considered the record evidence and the arguments, we grant MFS-I's request for tandem and, where justified by the volume of traffic, central office interconnection. Granting co-carrier status to MFS-I will facilitate competition for local exchange service, which is in the public interest. While it is true that MFS-I could operate without expanded interconnection, BA-Md. has not persuaded us that there is any substantive reason for denying expanded interconnection for local exchange service while granting MFS-I's request for interexchange expanded interconnection. Therefore, we direct BA-Md. to offer MFS-I interconnection to tandem and central office switches and,

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at such time as expanded interconnection is established for interexchange access, expanded interconnection for local exchange access.

MFS-I requests that MFS-I and BA-Md. be required to report jointly to the Commission within 60 days regarding the technical and operational status of co-carrier interconnection (including the assignment of central office codes to MFS-I), and identifying any disputed issues that require Commission resolution. As to such operational issues, including mutual network aid agreements, we expect MFS-I and BA-Md. to resolve them through negotiation, without the need for the Commission's intercession. The general policy is to establish efficient and seamless interconnection, so that the customers connected by a call have no operational reason to care which carrier is providing service(s) during the call. Beyond that, the Commission will decide the issues only if brought before the Commission because the parties cannot reach a mutually agreeable solution. We direct MFS-I and BA-Md. to report on these matters within 60 days from the date of this Order. We anticipate the report will indicate that all technical and operational issues can be resolved expeditiously.

With respect to the date upon which co-carrier status can be effectuated, MFS-I states that the industry's central office code assignment guidelines require 105 days advance notice for the activation of new codes. Therefore, MFS-I proposes a 120-day interval from the date of submission of the report on the resolution of the technical and operational issues to the

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Commission. The Commission accepts the 120-day interval as an appropriate guideline

K. Interconnection of Local Exchange - Financial Issues.

As noted above, under the tandem model of interconnection, MFS-I expects to purchase access to BA-Md.'s network out of switched access tariffs. For that purpose, MFS-I requests the Commission to direct BA-Md. to amend its access tariffs to permit termination on a "bill-and-keep" basis (or on such other equitable basis as the Commission orders). Under the bill-and-keep approach, MFS- and BA-Md. would exchange access to each other's network in-kind, on a traditional non-competitive carrier-to-carrier basis. This approach assumes that BA-Md.'s and MFS-I's costs of interconnection are similar, and that the volume of traffic in both directions will be approximately equal. Under these assumptions, the bill-and-keep approach would result in no charges for interconnection to each other, and, therefore, would be efficient and easy to administer.

BA-Md. acknowledges that MFS-I should be able to charge for access to its network, just as BA-Md. does, but argues that MFS-I's rates should be based on MFS-I's costs. Our agreement with this proposition constitutes one reason why we reject the bill-and-keep approach in this case. Moreover, as it will be some time before traffic will flow in equal volume in both directions, we agree that, although efficient, the bill-and-keep approach for charging for terminating traffic should be rejected at this time.

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MFS-I acknowledges that the alternative to bill-and-keep would be for MFS-I and BA-Md. to impose access charges for local traffic termination on each other. In this regard, MFS-I has not yet proposed any level of access charge that it intends to impose on BA-Md. MFS-I expects to propose access charges, as with its other rates, after considering both its costs and current market conditions. MFS-I further takes the position that these rates should be presumed reasonable unless and until the Commission finds good cause (such as demonstrated market failure) to reassert its regulatory authority.

BA-Md., on the other hand, takes the position that MFS-I's access charge should be set to recover its cost of terminating calls. Therefore, BA-Md. argues, MFS-I must establish its costs for termination. Until that time, there should be no terminating access charge levied by MFS-I.

As we noted above, we find that any access charges proposed by MFS-I will not carry the presumption of reasonableness; instead, they have to be fully supported by MFS-I and reviewed and accepted by the Commission. In this regard, and in order to provide further guidance to MFS-I, we note that BA-Md.'s temporary local exchange access tariff, for reasons stated below, is not appropriate as a reciprocal model.

MFS-I points out that a minimum of 120 days is required before co-carrier interconnection could be effectuated. Therefore, MFS-I has an opportunity to file tariffs prior to the expiration of that period to enable MFS-I to levy charges for termination on its network once traffic starts to flow. Depend-

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ing upon the adequacy of the supporting material, the Commission may accept MFS-I's access tariffs on a temporary basis, pending a final determination as to their reasonableness. MFS-I may effectuate co-carrier interconnection prior to the Commission's interim or final acceptance of MFS-I's tariffs; however, MFS-I will not be entitled to charge for termination of BA-Md.'s customers' calls on MFS-I's network until such acceptance occurs.

BA-Md. proposes to revise its access tariffs and establish an access charge for termination of local access calls, which would be adjusted for the fact that most local business traffic is not time-measured. In addition, BA-Md. proposes to establish a monthly Competitive Contribution Charge ("CCC") to compensate BA-Md. for the loss of business lines to MFS-I. The interconnection pricing as proposed by BA-Md. is based directly on, and supported by, the economic analysis presented by Professor Kahn and Dr. Taylor in this proceeding.

As Professor Kahn and Dr. Taylor describe it, the central economic problem created by MFS-I's entry into the local business exchange market is that the competition between MFS-I and BA-Md. will be in the offering of local service, which MFS-I can for the most part provide only by using BA-Md.'s facilities for part of the transmission path in order to receive calls from BA-Md.'s customers and to terminate calls originating with MFS-I's customers. BA-Md., then, will be both providing its services wholesale to MFS-I and providing retail services in competition with MFS-I. According to Professor Kahn and Dr. Taylor, the only way to ensure that competition is efficient